

August 5, 2022

Via Electronic Mail

Ann E. Misback

Secretary

Board of Governors of the Federal Reserve System

20th Street and Constitution Avenue, NW

Washington, DC 20551

Chief Counsel's Office

Attention: Comment Processing

Office of the Comptroller of the Currency

400 7th Street, SW, Suite 3E-218

Washington, DC 20219

Robert E. Feldman

Executive Secretary

Attention: Comments

Federal Deposit Insurance Corporation

550 17th Street NW

Washington, DC 20429

Re: Support for intermediaries that finance Small Businesses in LMI Areas or with LMI employees, and the Scalable Businesses they serve: Economic Development Provisions of the Community Reinvestment Act Regulations Docket (R-1769) and RIN (7100-AG29)

LBAN is grateful for the opportunity to submit comments to the Interagency Proposed Rule Making issued May 2022 (Proposed Rule) by the OCC, FDIC, and Federal Reserve Board (collectively, the Agencies or Regulators).

Latino Business Action Network (LBAN) is a Silicon Valley-based nonprofit with a mission to strengthen the U.S. economy by empowering Latino entrepreneurship across the country. We are a nonprofit 501 (c) (3) organization with a national reach. We partner with Stanford University through the jointly led and supported Stanford Latino Entrepreneurship Initiative within the Center for Entrepreneurial Studies at the Stanford Graduate School of Business.

**In the last 10 years, Latinos created half the new companies in the U.S.** LBAN leverages the best of Stanford Graduate School of Business and applies it to this growing Latino entrepreneurship opportunity. Latino companies are younger and consequently smaller than the average, but they are growing. When they reach the average size of companies in the U.S., this will add \$3 trillion to the American economy. Our goal is to accelerate this process.

Since 2015, LBAN has published the [State of Latino Entrepreneurship Report](https://www.lban.us/_files/ugd/914d32_1e2a0896b4374bab8f2a6dc3aa2f154c.pdf), [ [https://www.lban.us/\\_files/ugd/914d32\\_1e2a0896b4374bab8f2a6dc3aa2f154c.pdf](https://www.lban.us/_files/ugd/914d32_1e2a0896b4374bab8f2a6dc3aa2f154c.pdf) ] which is widely considered the most in-depth resource on Hispanic Businesses. Some of our findings include:

- 44% growth in the number of Latino-owned businesses in the last 10 years compared to just 4% for non-Latinos
- \$470 billion was generated in 2020 by Latino-owned companies in the U.S. and employing 2.9 million workers.
- Employment among Latino owned businesses grew 2x faster than non-Latino owned businesses (from 2014 to 2016). Not only are Latino-owned businesses creating more jobs, but they are also creating higher quality jobs than white-owned peers:
  - Fewer Latino-owned companies report that all their employees are paid above minimum wage than white-owned businesses (42% to 57%), but **more Latino-owned businesses report that most of their employees are paid above minimum wage relative to white-owned businesses (25% v. 17%).**
  - Latino-owned firms report providing benefits to their employees at rates higher than white-owned businesses across all benefits, including health, flexible work, paid holidays, retirement, stocks, wellness programs, and tuition.

**Unfortunately, despite their strong performance, economic contributions, and growth potential, Latino-owned businesses remain overlooked and underserved by the traditional financial sector:**

- A Latino business owner has a 60% lower chance of loan approval from national banks compared to non-Latino owned businesses.
- Latino-owned businesses receive less than 2% of the available Venture Capital funding in the U.S. From the top 25 venture capital and private equity firms, just 1% of investments go to Latino-owned businesses.
- By 2026, 13% of employer Latino-owned businesses expect to have 100 or more employees compared with just 8% of employer white-owned businesses.

**LBAN recognizes the important role that CRA has played and will continue to play in leveling the playing field for Latino-owned businesses to access capital, support growth, create jobs, and strengthen communities across the US, including those that operate in Low- and Moderate-Income (LMI) communities or create LMI jobs. Should the CRA Proposed Rule be enacted in its current form, many of the Latino-owned businesses that we consider important for a healthy Latino-owned business landscape will suffer once they reach \$5M and are not financed by an SBIC, CDFI or government program. They will regress in an already disparagingly challenging lending climate. This could cause irreparable damage to economic development, job creation, retention, improvement, and generational wealth creation.**

**Similarly, the market today includes a variety of financial intermediaries that serve small businesses in LMI areas or with LMI employees, that are not SBICs or CDFIs, yet provide a vital financing role for diverse businesses. It is critical to support these alternative entities that help address the access to capital gap for Latino-entrepreneurs. As mentioned in our recent [Access to Capital Report](https://www.lban.us/_files/ugd/914d32_5a23715a50e5480b84185ba5149dfdda.pdf): [ [https://www.lban.us/\\_files/ugd/914d32\\_5a23715a50e5480b84185ba5149dfdda.pdf](https://www.lban.us/_files/ugd/914d32_5a23715a50e5480b84185ba5149dfdda.pdf) ]**

*“The root of the problem isn’t the investment potential of Latino-owned businesses. Compared with their white-owned peers, Latino-owned businesses outpace white-owned business revenue growth at every business size. **Instead, the structures that exist today appear to systemically underfund these businesses.**”*

**The CRA is fundamentally critical in disrupting these structures and ensuring Latino-owned businesses and financial intermediaries continue to thrive, and we feel compelled to respond to Questions 11 and 13:**

*A. Direct Loans to or Investments in Minority Small Businesses Should Receive CRA Credit (Question 11)*

The Regulators ask for feedback about moving small business loans that promote economic development to a different test:

*Would lending to small businesses and small farms that may also support job creation, retention, and improvement for low- or moderate-income individuals and communities be sufficiently recognized through the analysis of small business and small farm loans and the qualitative review in the Retail Lending Test?*

**1) LBAN strongly disagrees that moving these loans to the Retail Lending Test would be sufficient recognition. We believe the loans should be considered part of economic development. Simply, loans directly to minority small businesses should be presumed to promote economic development and thus receive automatic CRA credit. Additionally, we strongly believe direct equity investments into minority-owned businesses should also receive CRA credit.**

*B. Loans to or Investments in Minority Financial Intermediaries Should Receive CRA Credit (Question 13)*

The Regulators ask for feedback about retaining job creation as part of economic development:

*1) Should the agencies retain a separate component for job creation, retention, and improvement for low- and moderate-income individuals under the economic development definition?*

*2) If so, should activities conducted with businesses or farms of any size and that create or retain jobs for low- or moderate-income individuals be considered?*

*3) Are there criteria that can be included to demonstrate that the primary purpose of an activity is job creation, retention, or improvement for low- or moderate-income individuals and that ensure activities are not qualified simply because they offer low wage jobs?*

**Our response to #1 of Question 13:**

Yes, we believe the agencies should retain a separate component for job creation, retention, and improvement for low- and moderate-income individuals under the economic development definition. We believe the Regulators need to add provisions regarding financing to intermediaries, which support job creation through small business financing. We must recognize the significant need for growth capital for Hispanic-owned businesses that continues to be extremely low, which is the reason why we ask regulators to retain incentives for these investments, especially with those of revenues greater than \$5 million.

Although a majority of business owners are in fact smaller than \$5 million, the success of scalable Hispanic businesses is essential for our community as they will become important job creators, examples for our community, and engines of economic development. Within the Economic Development definition, we believe that the Regulators should include language that allows banks to receive CRA credit for activities that promote job creation, retention, and improvement related to the direct or indirect financing of small businesses that meet the size and eligibility standards of the SBIC programs:

- Specifically, CRA should value and support the growth of small businesses owned by minorities that have revenues over \$ 5 million but which would likely be overlooked by traditional financing methods; as such, we draw the attention of the Regulators to the need to incentivize support for non-SBIC financial intermediaries led by minority individuals that are dedicated to closing the gaps in access to capital.

**Regarding #2 and #3 of Question 13:**

Yes, we believe that the current regulatory guidance provides that “examiners will employ appropriate flexibility in reviewing any information provided by a financial institution that reasonably demonstrates that the purpose, mandate, or function of the activity meets the “purpose test”. This would include reporting of the number of jobs created, retained, and/or improved for LMI people or in LMI areas, relevant income data, the date that the company was incorporated, etc., which banks have successfully used for several years to receive CRA credit.

Hispanic-owned businesses are growing their number of employees at a faster rate than white-owned employer businesses, so we care to argue that the financial resources available to them should be growing through a diverse and multi-pronged approach that includes both SBICs and non-SBIC funds, as is the case now. Representing these important contributions, we believe that the recommended changes related to Question 13 of the Proposed Rule is of vital importance to the economic development of our Latino-owned businesses and LMI communities.

Further, it is difficult for us to understand the rationale as to why an artificial cap of \$5 million would be used as a revenue limitation. Such companies have experienced many challenges to reach this very important and

critical stage in their evolution, but those challenges do not disappear at \$5M and therefore these businesses should not be denied access to financing from current institutions that have successfully invested in and driven substantive change in communities across the US, including those that are designated as LMI.

Our research encompasses all Latino firms across the U.S. with at least 1 employee, this is hundreds of thousands of growing companies, and we also have very direct access to about 1,000 that have gone through our Business Scaling program at Stanford. We know they will have a strong interest in the CRA policies and actions and we implore you not to proceed with the proposed changes.

We also are part of the ecosystem that includes capital providers that support growing business and we know there are similar concerns about the negative impact the proposed changes would have.

Ultimately a healthy community needs an ecosystem that supports a broad range of companies, not just micro businesses and a few very large corporations with very little in the middle. The proposed changes would negatively impact those above \$5M that could become mid-size companies needed for healthier communities.

In closing, we would like to take this opportunity to express our gratitude for the opportunity to share our comments to the Interagency Proposed Rule Making issued May 2022 (Proposed Rule) by the OCC, FDIC, and Federal Reserve Board (collectively, the Agencies or Regulators). Please reach out with any questions regarding these comments,

Sincerely,



**CEO Latino Business Action Network**

297 Commercial Street,  
San Jose, CA 95112

Email: [arturo@lban.us](mailto:arturo@lban.us)

Tel: (650) 378-6469